

Message Text

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ACTION NEA-11

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DEPT PASS EXIMBANK

E.O. 11652: NA
TAGS: EFIN EAID LE
SUBJ: 150 MILLION DOLLAR EURODOLLAR LOAN TO LEBANON SIGNED

REF: (A) BEIRUT 2622, (B) BEIRUT 1762, (C) 77 BEIRUT 5811

1. ON JUNE 9, GOL AND A GROUP OF BANKS LED BY MULTIMILLION EURODOLLAR LOAN TO GOL COUNCIL FOR RECONSTRUCTION AND DEVELOPMENT (CDR), BRINGING TO CONCLUSION THE LENGTHY GESTATION DESCRIBED REFTELS. SIGNING "FOR LEBANON" WAS CDR PRESIDENT MOHAMMED ATALLAH, BUT SEATED WITH HIM AT CENTER OF TABLE AND SIGNING TO REPRESENT "THE GUARANTEE OF THE LEBANESE GOVERNMENT" WAS MINFINANCE FARID RAPHAEL. DUAL ARRANGEMENT MADE EXPLICIT THAT, FOR PURPOSES OF THIS LOAN, ATALLAH'S CDR ALTHOUGH FORMAL RECIPIENT ON BEHALF OF THE STATE DID NOT EMBODY THE STATE'S GUARANTEE.

2. FINAL SIGNATURE OF THIS LARGE AMOUNT IS EXTREMELY BENEFICIAL TO LEBANON AND REPRESENTS A TRIUMPH OVER ADVERSITIES THAT BESET THE COUNTRY IN FEBRUARY, MARCH AND APRIL, WHEN DEAL SEEMED IN DANGER OF COLLAPSING. BENEATH SURFACE, LEBANON'S SUCCESS IS NOT ENTIRELY SHARED BY THE UNDERWRITERS WHO REPORTEDLY WERE ABLE TO

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SELL LESS THAN 30 PERCENT OF THE ISSUE TO OTHER BANKS, AND THUS HOLD MORE OF THE FOOTING THAN THEY DESIRE. AT LIBOR PLUS 1-1/8 TO 1-1/4, THE RATE IS NOT HIGH ENOUGH TO COMPENSATE FOR THE DISAPPOINTING SELL-DOWN.

3. LOAN WILL BE APPLIED TO RECONSTRUCTION AND DEVELOPMENT IN SPHERES OF CDR'S CHOOSING. ELECTRIC POWER GENERATION, HIGHWAYS,

TELECOMMUNICATIONS, WATER PROJECTS AND HOUSING HAVE ALL BEEN MENTIONED. SINCE CHAPTERS II AND III OF LEBANON'S STATE BUDGET ARE DEDICATED TO INFRASTRUCTURE MAINTENANCE AND DEVELOPMENT, LOAN IS IN ESSENCE BUDGET SUPPORT THAT WILL OFFSET PART OF PROJECTED LL 857 MILLION (\$295 MILLION) DEFICIT IN 1978.

4. TERMS AND PARTICIPANTS IN SYNDICATION REMAIN AS GIVEN IN REF (C). OTHER U.S.-AFFILIATED BANKS TAKING PART WERE AMERICAN EXPRESS MID-EAST DEVELOPMENT CO S.A.L., CHEMICAL BANK (ME) S.A.L., AND BANK OF LEBANON AND KUWAIT (PARTLY OWNED BY CITIBANK, N.Y.). REPUBLIC NATIONAL BANK OF NEW YORK AND A NUMBER OF BEIRUT BANKS ALSO PARTOOK. MAJOR U.S. BANKS DECLINING TO PARTICIPATE INCLUDED CHASE, IRVING TRUST, CITIBANK AND MORGAN GUARANTY.

5. COMMENT: LOAN IS SYMBOLICALLY IMPORTANT FOR LEBANON AT THIS STAGE IN ITS ECONOMIC RECUPERATION AND FINANCIALLY SPEAKING WAS A BARGAIN FOR GOL. WE DO NOT EXPECT A FLOOD OF EUROPEAN COMMERCIAL LENDING TO LEBANON TO FOLLOW, BUT THE PRECEDENT IS ESTABLISHED AND GOL WILL CERTAINLY CITE IT IN FUTURE EFFORTS TO RAISE SEVEN-YEAR MONEY FROM OTHER SOURCES, INCLUDING DOMESTIC LENDERS. LOAN IS LARGEST THAT POST-WAR LEBANON HAS YET OBTAINED FROM ANY SOURCE, GOVERNMENT OR COMMERCIAL, AND REPRESENTS A SIGNIFICANT ACCOMPLISHMENT ON THE PATH TO RECOVERY.

DECONTROL 6/30/78.

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